

Message Text

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SUBJECT: TIMES OF INDIA ARTICLE ON SOVIET LOANS TO INDIA

1. THE JUNE 6 EDITION OF THE TIMES OF INDIA CARRIED THE FOLLOWING
ARTICLE BY SWAMINATHAN AIYAR ENTITLED SOVIET LOAN LIKELY TO
REMAIN UNUTILIZED.

2. QUOTE MOST OF THE NEW SOVIET LOAN OF 250 MILLION ROUBLES
GIVEN DURING THE RECENT VISIT OF THE SOVIET FOREIGN MINISTER,
MR. GROMYKO, WILL REMAIN UNUTILIZED FOR A VERY LONG TIME AS THERE
ARE NO PROJECTS IN SIGHT WHERE THIS MONEY CAN BE USED. NEGOTIATIONS
FOR THE LOAN BEGAN LAST YEAR, THE IDEA BEING TO FINALIZE IT IN
APRIL 1977 TO MARK THE 30TH ANNIVERSARY OF DIPLOMATIC RELATIONS
BETWEEN TWO COUNTRIES. DURING THE NEGOTIATIONS IT WAS AGREED
THAT AROUND 50 MILLION ROUBLES SHOULD BE USED FOR SINGRAULI AND
RANIGANJ COAL DEVELOPMENT PROJECTS. A MUCH BIGGER ALLOCATION WAS
ENVISAGED FOR BOKARO EXPANSION, WHICH CENTERED ON A GIANT COLD
ROLLING MILL. THE INDIAN SIDE THOUGHT THIS WOULD REQUIRE 100
MILLION ROUBLES WHILE THE SOVIET SIDE THOUGHT IT COULD BE
120 MILLION TO 140 MILLION ROUBLES.

3. HOWEVER, THE NEW JANATA GOVERNMENT HAS DECIDED TO DO AWAY
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WITH SOVIET ASSISTANCE FOR THE EXPANSION OF BOKARO AND FABRICATE
ALL THE EQUIPMENT INDIGENOUSLY. THUS AT ONE STROKE THE MAIN
RATIONABLE OF THE NEW LOAN HAS DISAPPEARED.

4. AS A POLITICAL GESTURE, THE LOAN AGREEMENT WAS SIGNED ANYHOW
DURING MR. GROMYKO'S VISIT. IT WAS SPECIFIED THAT THE CREDIT
COULD BE USED FOR ANY OTHER PROJECTS MUTUALLY AGREED UPON BY

THE TWO GOVERNMENTS. BUT IN FACT THE JANATA GOVERNMENT HAS NO SUCH PROJECTS IN MIND. IT HAS DECIDED TO SHIFT ITS INVESTMENT PRIORITIES AWAY FROM HEAVY INDUSTRY AND TOWARDS AGRICULTURE AND SMALL SCALE INDUSTRIES, WHICH MEANS THAT THE PROSPECTS OF USING THE SOVIET LOAN HAVE BECOME MORE REMOTE THAN EVER. THE GOVERNMENT WILL CONTINUE TO INVEST IN SECTORS RELATED TO AGRICULTURE, SUCH AS FERTILIZERS, BUT THE SOVIET UNION DOES NOT HAVE THE ABILITY TO SUPPLY MODERN FERTILIZER PLANTS. THE SOVIET UNION GIVES LOANS ONLY FOR CAPITAL GOODS AND COMPONENTS, NOT FOR PURCHASING COMMODITIES.

5. INDIA'S GROWING SELF-SUFFICIENCY IN CAPITAL GOODS HAS, THEREFORE, LED TO A SHARP FALL IN THE UTILIZATION OF SOVIET LOANS, WHICH HAS AVERAGED BARELY RS. 20 CRORES (RS. 200 MILLION) PER YEAR FOR THE LAST FEW YEARS. THIS IS A MERE TRICKLE, CONSIDERING THAT THE BALANCE OF UNUTILIZED OLD SOVIET LOANS WAS RS. 255.18 CRORES AT THE BEGINNING OF THE FINANCIAL YEAR. AT THIS RATE OF DISBURSEMENT IT WILL TAKE MORE THAN A DECADE TO UTILIZE THE OLD LOANS, LEAVE ALONE THE NEW ONE.

6. OF THE 337.5 MILLION ROUBLE CREDIT GIVEN IN 1959, THERE IS STILL AN UNSPENT BALANCE OF RS. 32 CRORES OF WHICH IT IS PROPOSED TO USE RS. 8 CRORES THIS YEAR. THE FATE OF THE 1966 CREDIT OF RS. 250 CRORES HAS BEEN EVEN WORSE, AND AS MUCH AS RS. 188.37 CRORES WAS LYING UNSPENT AT THE BEGINNING OF THE FINANCIAL YEAR. HOWEVER, A LOT OF THIS BALANCE HAS ALREADY BEEN EARMARKED FOR PROJECTS LIKE THE MATHURA REFINERY, EQUIPMENT OF THE OIL AND NATURAL GAS COMMISSION, BHILAI EXPANSION, THE MALANIKHAND COPPER PROJECT, THE CALCUTTA UNDERGROUND RAILWAY, AND FEASIBILITY UNCLASSIFIED

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REPORTS FOR COAL MINES.

7. SOME OFFICIALS ARGUE IT IS WRONG TO TAKE A PESSIMISTIC VIEW OF THE UTILIZATION OF SOVIET AID. OF THE TOTAL OF APPROXIMATELY RS. 1,225 CRORES OF AID GRANTED TILL THIS YEAR, AS MUCH AS 90 PERCENT HAS EITHER BEEN SPENT OR EARMARKED. THIS SEEMS, ON THE FACE OF IT A VERY REASONABLE STATE OF AFFAIRS. BUT IT CLOAKS THE FACT THAT UTILIZATION, WHICH WAS FAIRLY GOOD IN THE 1960S, HAS FALLEN TO LOW LEVELS IN THE 1970S. THE PROJECTS FOR WHICH FUNDS HAVE BEEN EARMARKED BUT NOT YET SPENT EXTEND IN SOME CASES INTO THE 1980S.

8. THIS GIVES SOME INDICATION OF HOW LONG IT WILL TAKE TO UTILIZE THE NEW SOVIET CREDIT. IT MAY EXTEND INTO THE NEXT CENTURY. AFTER ALL, THE 1959 SOVIET CREDIT IS STILL TO BE FULLY DISBURSED, WHILE LESS THAN A QUARTER OF THE 1966 LOANS HAS BEEN SPENT AFTER MORE THAN TEN YEARS.

9. THE ONLY WAY IN WHICH A QUICKER DISBURSEMENT CAN BE ENSURED

IS FOR THE SOVIET UNION TO AGREE TO LET INDIA USE THE MONEY FOR PURCHASING RAW MATERIALS AND CONSUMER GOODS. INDIA HAS MADE SUCH A PROPOSAL TO THE USSR, BUT IT HAS RECEIVED A COOL RECEPTION. A FEW YEARS AGO A NUMBER OF NEW INDO-SOVIET PROJECTS WERE SUGGESTED ON A PRODUCTION COOPERATION BASIS. THIS INVOLVED FINANCE FOR THE PROJECTS FROM THE SOVIET UNION, WHICH WOULD BE REPAYED THROUGH THE EXPORT OF GOODS PRODUCED BY THE VENTURES. SOME OF THE PROJECTS SUGGESTED WERE FOR COLOUR TV SETS, CAUSTIC SODA, PAPER AND PULP AND ALUMINA. HOWEVER, A DEEPER EXAMINATION OF THESE PROJECTS SHOULD REVEAL THAT ONLY A TINY PROPORTION OF THE TOTAL INVESTMENT COULD BE IN THE FORM OF IMPORTS FROM THE USSR, AND IT WAS ESSENTIALLY RUPEE FINANCE THAT WAS REQUIRED. INDIA SUGGESTED THAT THE SOVIET UNION SHOULD SUPPLY RAW MATERIALS AND CONSUMER GOODS LIKE CRUDE OIL AND KEROSENE ON CREDIT, WHICH COULD BE SOLD IN INDIA TO RAISE THE NECESSARY RUPEE FINANCE. BUT THE SOVIET UNION REFUSED TO AGREE. AS A RESULT THE PROPOSALS HAVE GONE INTO DEEP FREEZE. UNQUOTE.GOHEEN
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